Supreme Court U.S.
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No. 01-1319

IN THE

Supreme Court of the United States

C.R. BARD, INC.,

Petitioner,

v.

W.L. GORE & ASSOCIATES, INC.,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE THIRD CIRCUIT

BRIEF IN OPPOSITION

JOHN S. CAMPBELL
W.L. GORE & ASSOCIATES, INC.
551 Paper Mill Road
Newark, Delaware 19714
(302) 292-4128

DAVID H. PFEFFER*
JANET DORE
KIMBER L. BLACKBURN
MORGAN & FINNEGAN, L.L.P.
345 Park Avenue
New York, New York 10154
(212) 758-4800

Attorneys for Respondent

* *Counsel of Record*

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QUESTION PRESENTED

Does this case present an issue for review by this Court where there is no federal or constitutional question at issue and no conflict between the circuits? More particularly, this case was commenced in federal court solely on diversity jurisdiction. It was decided solely on the application of New Jersey contract law to the specific facts of the case, namely that, in context, a particular phrase in a private agreement should be interpreted to mean precisely what it says, and nothing more or less.

CORPORATE DISCLOSURE STATEMENT

In accordance with Supreme Court Rule 29.6, respondent W.L. Gore & Associates, Inc. states that it is a privately held corporation, that it has no parent company and that there is no publicly held company owning ten percent (10%) or more of its stock.

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STATEMENT OF THE CASE

Introduction

This case involves the interpretation, under New Jersey state contract law, of a 1984 Agreement between Petitioner, C.R. Bard, Inc. ("Bard") and Respondent, W.L. Gore & Associates, Inc. ("Gore") settling an earlier patent infringement action between them.[1] At issue is the construction under New Jersey contract law of the phrase "holds invalid each and every one of the claims asserted against Bard. . . ." and whether under that phrase as properly construed, Bard could properly withdraw an option for a license granted to Gore under that Agreement. Gore's position and the rulings of both the district court and the court of appeals below were that under the proper construction of the Agreement language, the condition that would have permitted Bard to withdraw Gore's option for a license did not occur.[2]

The 1984 Litigation Between Gore and Bard

Among other things, Gore is a manufacturer of GORE-TEX brand vascular grafts which are used as replacement or bypass

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1. *W.L. Gore & Assoc., Inc. and Gore Enterprise Holdings, Inc. v. C.R. Bard, Inc.*, Civil Action No. 84-729 (FBL) (D.N.J.).

2. The settlement document which is now being challenged by Bard in the instant case was also attacked by Bard once before, in 1991, through an unsuccessful motion to modify the judgment. The denial of that motion was appealed by Bard to the United States Court of Appeals for the Federal Circuit, which affirmed the district court's denial of Bard's motion, noting "[t]hat a contract voluntarily made turns out to be less or more favorable to one of the parties is insufficient ground for judicial intervention." *See W.L. Gore & Assoc., Inc. v. C.R. Bard, Inc.*, 977 F.2d 558, 561 (Fed. Cir. 1992).

arteries for patients with arterial blockages. GORE-TEX vascular grafts are made of expanded polytetrafluoroethylene ("e-PTFE"), a material familiarly sold or used under the brand name TEFLON. At various times, Bard has also manufactured competing e-PTFE vascular grafts.

In 1984, Gore brought suit against Bard in the district court for the district of New Jersey accusing Bard's competing e-PTFE vascular grafts of infringing claims 9, 12, 16, 35 and 36 of Gore's U.S. Patent No. 4,187,390 ("the '390 Patent"). Bard capitulated before trial and entered into a Settlement Agreement with Gore. Under that Agreement, Bard was required to (1) cease its unauthorized manufacture of vascular grafts, (2) destroy its existing graft inventory, (3) pay $600,000 to Gore, (4) grant a sub-license to Gore under any patent that might issue on a "Goldfarb" patent application and (5) permit entry of a final judgment and injunction on consent adjudging that each of the patent claims 9, 12, 16, 35 and 36 were valid.

Paragraph 6 of the Settlement Agreement, included at Bard's request and after review by Bard's counsel, permitted Bard to withdraw or terminate Gore's option to obtain such a "Goldfarb" sub-license if:

> there is a Final Judgment of a United States court from which no appeal has been or can be taken and which holds invalid each and every one of the claims asserted against Bard, i.e., claims 9, 12, 16, 35 and 36 of United States Patent No. 4,187,390 . . .

Bard sought to invoke Paragraph 6 of the Agreement. The subsequent judgment which Petitioner Bard claimed

triggered Paragraph 6 was a 1990 judgment of an Arizona federal district court. The case below involved the interpretation, under New Jersey contract law of the Paragraph 6 term "holds invalid each and every one of . . . claims 9, 12, 16, 35 and 36."

The Litigation Between Gore And IMPRA

After settlement of the 1984 litigation with Bard, Gore sued International Medical Prosthetics Research Associates, Inc. ("IMPRA"), another manufacturer of e-PTFE grafts, in the District of Arizona, for infringement of claims 9, 12, 16 and 35 (but not 36) of the '390 patent. After trial, the Arizona district court issued an Amended Judgment in July 1990, holding invalid specifically enumerated patent claims, namely 9, 12, 16 and 35, the only claims that were litigated. Patent claim 36, one of the five patent claims referred to in Paragraph 6 of the Bard-Gore Settlement Agreement, was not in issue in the Arizona action against IMPRA and was not mentioned in the Arizona Amended Judgment.

Subsequent to the issuance of the Arizona district court judgment and while an appeal to the Federal Circuit was pending, Gore and IMPRA reached a settlement of the Arizona action. Pursuant to its then established policy, the Court of Appeals for the Federal Circuit granted the joint motion of Gore and IMPRA and vacated the Arizona Amended Judgment. Following receipt of the Federal Circuit's Mandate, the Arizona district court issued an order (1) acknowledging that the Federal Circuit had vacated the district court's Amended Judgment, and (2) substituting a new judgment dismissing the action. The substitute judgment, unlike the earlier Amended Judgment, did not adjudicate or even mention the validity of any patent claims.

The Action Below

Notwithstanding (a) the vacatur of the Arizona district court judgment and (b) the fact that even before vacatur, the Arizona Amended Judgment only referred to four, not five patent claims, Bard sought declaratory relief that it could revoke the "Goldfarb" sublicense. In its complaint, Bard asked the court to find that even though patent claim 36 was never expressly adjudicated, the vacated Arizona district court judgment was a "Final Judgment . . . which holds invalid each and every one of the claims asserted against Bard, i.e. claims 9, 12, 16, 35 and 36 . . ." as required by Paragraph 6 of the 1984 Settlement Agreement.

In its decision below, the district court granted summary judgment and dismissed Bard's complaint. Applying New Jersey state contract law, the district court held that as intended by the parties, the Agreement required a judgment expressly holding invalid "each and every one" of the five specified patent claims before Bard could properly withdraw the "Goldfarb" option (App. 14a-19a, 23a).[3] The district court rejected Bard's attempt to rely on possible implied invalidation of the fifth claim or its effective invalidation under principles of collateral estoppel. The district court made clear that Bard would be held to the bargain it made in 1984. The district court said that "[b]ecause the Arizona Judgment invalidated only four of those five claims," it did not satisfy the conditions of Paragraph 6 (App. 23a).

The Court of Appeals for the Third Circuit affirmed the district court's decision based on "the actual language of the parties' settlement agreement . . ." (App. 1a), which it agreed

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3. References to Appendix pages are to the appendices attached to Bard's Petition for Certiorari.

was "clear and unambiguous" (App. 2a). The court declined to "deviate from the express words of the contract" concluding that "four out of five of the claims being held invalid is not enough to satisfy the condition subsequent." (App. 2a-3a).

Based upon New Jersey contract law considerations, the Third Circuit rejected Bard's argument that "holds invalid" has a broader meaning than the explicit language of the Arizona court's Amended Judgment, or that claim 36 was held invalid by implication:

> We will not now decide that the Arizona court actually meant to "hold invalid" a claim that was never even placed into issue before it. We also reject the argument that claim 36 was "held invalid" because it is necessarily invalid as a derivative of the other claims. . . . That analysis would involve an exercise not anticipated by the plain language of the parties' agreement. (App. 3a).

REASONS FOR DENYING THE WRIT

Petitioner's basis for seeking the writ is factually flawed and legally erroneous. There is no "conflict" between the District of Columbia Circuit's *Teva* decision, *Teva Pharms. USA Inc. v. United States Food & Drug Admin.*, 182 F.3d 1003 (D.C. Cir. 1999), and the Third Circuit's decision in this case. In reality, in the guise of seeking resolution of a purported conflict between the circuits, Petitioner is asking this Court to review and reverse the application of New Jersey state contract law in an action where the jurisdiction of the federal courts below was based solely on diversity jurisdiction.

I. THERE IS NO CONFLICT BETWEEN THE CIRCUITS

The *Teva* case involved interpretation, under federal law, of the intent underlying a federal statute's use of the term "court decision." On the other hand, the present case involved the construction, under New Jersey state contract law, of the parties' mutual intent in using certain language in a private agreement negotiated almost two decades ago.

A. The *Teva* Case Involved A Statutory Interpretation

The *Teva* case involved interpretation of the Abbreviated New Drug Application ("ANDA") statute. The question before the District of Columbia Circuit was the scope of the ANDA statute's requirement for a "court decision." The ANDA statute required Teva, as the new drug supplier, to establish to the Food & Drug Administration ("FDA") that there had been a "court decision" holding the patent on the drug either invalid, non-infringed or unenforceable.

Teva had earlier attempted to secure a judicial determination of patent non-infringement by filing a declaratory judgment action in California against Syntex, the patentee. That effort was thwarted when Syntex moved to dismiss the California action for lack of a justiciable controversy. The Syntex motion was supported by an express representation that Teva's formulation did not infringe the patent and a commitment that Syntex would not sue Teva for patent infringement. As a direct result of the Syntex promise not to sue, the California court found that Teva "lacks a reasonable apprehension of suit . . . for infringement of the . . . patent" and dismissed the action for lack of the required justiciable controversy. 182 F.3d at 1006.

When the FDA declined to consider the California dismissal as a "court decision" under the ANDA statute, Teva sought relief in the District of Columbia. That gave rise to the *Teva* decision the Petitioner now relies upon. In *Teva*, the District of Columbia Circuit overturned the FDA's ruling because the FDA was "arbitrary and capricious" when it refused to recognize the dismissal of the California case as satisfying the "court decision" requirement of the ANDA statute. The District of Columbia Circuit noted the statute's requirement that there be some advance resolution of any patent disputes in order to trigger the ANDA provisions. The judicially accepted promise not to sue by Syntex underlying the California dismissal constituted that resolution and thus satisfied that requirement. As a result, the District of Columbia Circuit noted that the FDA's ruling refusing to accept that decision as complying with the statute, if allowed to stand, would have thwarted the underlying purpose of the statute.

B. The Present Case Involves A Determination of The Parties' Intent Under New Jersey State Law

In the present case, where jurisdiction was based solely on diversity of citizenship, no statutory interpretation is involved. Instead, the courts below construed a particular sentence in a private contract in accordance with New Jersey contract law. The question posed under New Jersey law was what the two contracting parties intended when they agreed, eighteen years ago, that Gore's right to a patent license could be withdrawn "[i]n the event that there is a Final Judgment of a United States court from which no appeal has been or can be taken and which holds invalid each and every one of . . . claims 9, 12, 16, 35 and 36 of United States Patent No. 4,187,390 . . ."

The district court and the court of appeals both concluded that the words of the Gore-Bard settlement agreement were carefully written. Both courts below held that under the rules of contract construction applicable under New Jersey contract law, the language chosen by the parties meant that to invoke the condition subsequent, the judgment had to expressly hold invalid "each and every one" of five enumerated patent claims, and this condition could not be satisfied by a judgment holding that four of the five claims were invalid. *See, e.g.*, App. 2a-3a; App. 22a-23a. Hence, the courts below both found that the Arizona court's Amended Judgment relied on by Petitioner, even before it was vacated on appeal, was not sufficient under New Jersey state contract law to trigger the condition subsequent in the contract.

II. THE PETITIONER CONFUSES STATUTORY INTERPRETATION OF "COURT DECISION" WITH POSSIBLE COLLATERAL ESTOPPEL EFFECT OF A JUDGMENT IN FUTURE LITIGATION

To construct an alleged conflict between the District of Columbia Circuit and the Third Circuit, the Petitioner argues that under the District of Columbia Circuit's construction of the ANDA statute in *Teva*, the "holding" of a court constitutes not only what it says expressly but also the holding's effect by way of collateral estoppel. In contrast, the Third Circuit's construction under New Jersey law of the words "holds invalid" in a private contract relied only on what the judgment expressly held, and not on any subsequent collateral estoppel effect. Petitioner asks this Court now to establish a uniform meaning, in the abstract, of the term "holding," as a matter of federal practice, whether that term is used in a federal statute as in *Teva* or by private parties in a contract to be

interpreted under state law. That uniform federal-state meaning of the abstract term "holding," the Petitioner urges, should include not only what the judgment holds expressly, but also whatever collateral effect that judgment might have in subsequent proceedings.

But Petitioner is mixing apples and oranges in its treatment of the two decisions. In *Teva*, the court looked to the absurdity ("arbitrary and capricious") of the FDA insistence on a further "court decision," both because such insistence was inconsistent with a prior FDA determination and because no other court proceeding was possible, given the patentee's concession of no infringement.

In contrast, the present case does not involve questions of abuse of discretion by the FDA or whether a subsequent lawsuit was technically possible. Instead, the issue is an interpretation under New Jersey law, of what the parties meant by a particular sentence in the context of an entire agreement.

The *unpublished* Third Circuit opinion in this case made no determination in the abstract as to the meaning of the term "holding" from a federal procedural standpoint. And pursuant to its view of New Jersey contract law, the Third Circuit expressly refused to determine whether, outside the context of the agreement being construed, a "holding" should or should not be considered as including any collateral effect:

> We also reject the argument that claim 36 was "held invalid" because it is necessarily invalid as a derivative of the other claims. . . . *That analysis would involve an exercise not anticipated by the plain language of the parties' agreement.* (App. 3a; emphasis supplied).

To be sure, the Third Circuit also refused to rule that "holds invalid," in the context of a carefully drafted settlement, has a broader meaning than what is explicitly stated in the Arizona court's Amended Judgment (App. 3a). But that refusal was not based on any collateral estoppel considerations, but was instead based on both (a) the Arizona district court's express assertion, in its Amended Judgment, that it was only holding four (not five) claims invalid, and (b) the reasoning by the district court below that the patent statute states that "[E]ach claim of a patent . . . shall be presumed valid independently of the validity of other claims," citing both to the statute itself, 35 U.S.C. § 282, and this Court's decision in *Leeds & Catlin Co. v. Victor Talking Machine Co.*, 213 U.S. 301, 319 (1909). *See* the district court opinion at App. 16a and 21a and the Third Circuit opinion at App. 3a.

III. THE ISSUE ON WHICH PETITIONER SEEKS THE WRIT IS MOOT, IN ANY EVENT

A further reason for denying the requested writ is that its grant would make no difference to the ultimate outcome of the underlying litigation. In footnote 3 of the Petition, the Petitioner correctly concedes that the judgment of the Arizona district court upon which it relies as the requisite "final judgment" was vacated. However, Petitioner failed to note that the vacatur was ordered by the Court of Appeals for the Federal Circuit, the court in which the appeal was then pending. A copy of the vacatur order of that court is now annexed in Appendix 1 hereto.

It is well settled that a lower court decision that has been vacated by an appellate court has no residual effect, for *res judicata*, collateral estoppel or any other purpose. *Cardinal Chem. Co. v. Morton Int'l., Inc.*, 508 U.S. 83, 93 n.15 (1993); *United States v. Munsingwear*, 340 U.S. 36, 39-40 (1950).

We point this out only because the Petitioner relies primarily on the alleged need to invoke collateral estoppel in determining what constitutes a "holding" of a district court judgment. *See* Petition at pp. 13-14. But where, as here, that district court judgment has been vacated during appeal, there is no collateral estoppel effect given to anything in that judgment. *Munsingwear*, 340 U.S. at 39-40. Consequently, the issue is entirely moot as to these parties and this case.

CONCLUSION

The Petition for a Writ of Certiorari should be denied because there is no conflict between the circuits. We have instead a decision below by the Third Circuit under state law that is entirely fact based, contrasted with an analysis of a specific federal statute by the District of Columbia Circuit where an administrative interpretation was deemed "arbitrary and capricious." Moreover, as an additional basis for denying the writ, the issue raised by Petitioner is entirely moot as a result of the vacatur of the Arizona district court's Amended Judgment upon which Petitioner relies.

Respectfully submitted,

JOHN S. CAMPBELL
W.L. GORE & ASSOCIATES, INC.
551 Paper Mill Road
Newark, Delaware 19714
(302) 292-4128

DAVID H. PFEFFER*
JANET DORE
KIMBER L. BLACKBURN
MORGAN & FINNEGAN, L.L.P.
345 Park Avenue
New York, New York 10154
(212) 758-4800

Attorneys for Respondent

* *Counsel of Record*

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